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DEPARTMENT FOR INL/LP

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TAGS: [PGOV](#) [PREL](#) [PTER](#) [CO](#)  
SUBJECT: GOC 'WEALTH TAX' BOOSTS DEFENSE BUDGET

Classified By: Political Counselor John S. Creamer  
Reasons: 1.4 (b) and (d)

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Summary  
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¶1. (C) In December 2006, the GOC approved a four-year "wealth tax" on liquid assets of Colombia's richest citizens and businesses to boost military spending. Of the estimated \$3.7 billion in new revenue over 2007-10, the major portion (about 70 percent) is expected to fund the domestic war effort against illegal armed groups through investment in Army and Police manpower, helicopters, and transport. Remaining funds (30 percent) are for jets, frigates, and submarines. Precise allocations are still tentative; the Embassy is engaging with the COLMIL to adjust and align priorities, emphasizing nationalization, sustainment, and a domestic focus. Defense Minister Santos has explicitly requested USG guidance on Colombian defense spending strategies. End Summary.

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Draft Numbers; Still In Flux  
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¶2. (C) Spending plans are not final, but the Ministry of Defense has shared two snapshots of the evolving budget. The more recent (February 20) is less detailed; it gives an estimate of total anticipated revenue (\$3.7 billion, up from \$3.1 billion) as well as allotments by service and allocation between personnel vs. equipment. An earlier set of numbers (February 1) was more detailed, indicating the magnitude of big-ticket purchases. We estimate that 70 percent of wealth tax revenue will go to the internal conflict, with 30 percent devoted to perceived external threats.

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Spending Priorities  
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¶3. (C) The Ministry of Defense's three priorities for the \$3.7 billion wealth tax are manpower, mobility, and intelligence. The draft matrix presented February 20 by Vice Minister Juan Carlos Pinzon showed a planned allocation of 37 percent to personnel (17 percent Army, 17 percent Police, and three percent others) and 62 percent to equipment (21 percent Navy, 18 percent Air Force, 15 percent Army, six percent

Police), mostly for transport. Civil affairs and social welfare programs under the "Accion Integral" umbrella were only one percent of wealth tax spending, with most funding coming from other GOC ministries. Pinzon said these allotments were final and agreed upon by service chiefs.

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Personnel Expansion  
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¶4. (U) Growth in personnel is focused on the Army (\$636 million) and Police (\$629 million), expanded by 14,000 and 20,000 recruits respectively. This builds on growth during Uribe's first term, when 60 percent of the first wealth tax was dedicated to financing new elements -- nine mobile brigades, five high mountain battalions, six hundred campesino platoons, and 157 police posts. Police expansion will further increase national coverage, which has now been extended to every county (municipio) in Colombia. Within the Army, the focus is to boost offensive capability with new mobile brigades and expanded special forces training, with a focus on border zones. Pinzon said these budgets included costs of recruitment, basic training, and four-year sustainment.

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Equipment Expenditures  
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¶5. (C) Pinzon's matrix did not break down equipment expenses, which he said were not finalized. Still, a February 1 draft gave likely indications. In that version, the COLNAV portion was almost wholly (96 percent) for open water operations (\$425 million and \$138 million to refurbish frigates and submarines, respectively; \$72 million for sea patrol craft), with only four percent (\$6 million) for river boats. The COLAF share was split between jets (\$32 million purchase, with \$195 million for refurbishment of newly acquired aircraft and 30-year-old existing fighters) to deter external threats, helicopters (\$192 million transport, \$74 million attack) for mobility and offensive operations in the internal conflict, and aerial surveillance platforms (\$38 million). Finally, the COLAR portion was dominated by transport helicopters (\$218 million), transport equipment (\$35 million), and individual troop gear (\$173 million) for fighting the illegal armed groups, but it also included armored vehicles (\$87 million) that would be of little use in counterterrorism operations.

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Internal vs. External Enemies  
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¶6. (C) Earlier (February 1) numbers suggest that some 70 percent of the wealth tax budget will be invested in assets for the internal conflict, with 30 percent destined to address perceived external threats. This rough estimate counts all personnel as serving the internal war effort, along with helicopters, transport vehicles, river boats, and individual troop equipment. Assets counted as targeting external threats are jets, frigates, submarines, and armored vehicles. Defense Minister Santos told A/S Thomas Shannon on January 30 that his aim was to "buy the minimum" in terms of capital assets. His decisions would not be guided by worries over Venezuela or Ecuador. He reiterated his earlier request to Ambassador Wood that the U.S. "help in evaluating what we really need from my military's wish-list."

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U.S. Guidance and Concerns  
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¶7. (C) Pinzon said the Ministry's budgeting process would continue for the next two to six months, including consultations with the U.S. and the public (the latter via a "Monitoring Commission" led by prominent businessmen). Echoing Santos, Pinzon asked for U.S. "technical advice" on capital spending. With Embassy NAS and Milgroup, Vice

Minister Pinzon agreed to organize service-specific working groups to align plans and priorities. NAS has voiced concern over the lack of any "nationalization" component, i.e. gradual Colombian assumption of costs now paid by the U.S. This will be revisited in pending meetings between Pinzon and INL. Milgroup plans to seek reassurances of sufficient budgeting for sustainment, as well as to stress the need to focus on the internal conflict.

#### ----- Tax Mechanics -----

18. (U) The "wealth tax" ("impuesto al patrimonio") applies to about 50,000 individuals and corporations, and levies a 1.2 percent tax on liquid assets valued over three billion pesos (about \$1.35 million.). Deductions are allowed for shares held in government entities and the value of a personal residence up to about \$100,000. Projected revenues of eight trillion pesos (\$3.73 billion) from 2007-10 will provide a boost of 15 percent to the base GOC defense budget forecast of around \$25 billion.

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Table 1: Wealth Tax Allocation (2/20/07 Draft)  
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(\$ million)		(2230 pesos / US\$)		
Service	Equipment	Manpower	Total	
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Army	574	636	1,211	(32%)
Police	232	629	861	(23%)
Navy	766	69	835	(22%)
Air Force	679	51	730	(20%)
Joint Staff / misc.	57	-	57	(2%)
Accion Integral	-	-	34	(1%)
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Totals	2,309	1,385	3,728	
	(62%)	(37%)	(100%)	(100%)

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Table 2: Equipment Expenditures by Service (2/1/07 Draft)  
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(\$ million)	(2230 pesos / US\$)	
Service /Item	Expenditure	
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COLNAV		
- Frigates refurbish	425	
- Subs refurbish	138	
- Sea patrol craft	72	
- Coastal boats	18	
- Riverine boats	6	
- Other	5	
Subtotal - COLNAV		666
COLAF		
- Jets refurbish	195	
- Jets new	32	
- Transport helos	192	
- Attack helos	74	
- ISR platforms	38	
Subtotal - COLAF		532
COLAR		
- Transport helos	218	
- Individual equipment	173	
- Armored vehicles	87	
- Transport equipment	35	
- Multipurpose aircraft	5	

Subtotal - COLAR

518

Total equipment purchases - all services\*

1,715

\* (Earlier draft; not equal to Table 1 equipment total.)

DRUCKER